

CITY OF SABETHA, KANSAS
Financial Statements
For the Year Ended December 31, 2011

City of Sabetha, Kansas
Financial Statements
For the Year Ended December 31, 2011

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Financial Statements
For the Year Ended December 31, 2011

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MIZE HOUSER
COMPANY P.A.

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS AND SUPPLEMENTARY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Mayor and City Commission
City of Sabetha, Kansas

We have audited the accompanying financial statements of the City of Sabetha, Kansas (the City), as of and for the year ended December 31, 2011, as listed in the table of contents. These financial statements are the responsibility of the management of the City of Sabetha, Kansas. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in "Government Auditing Standards", issued by the Comptroller General of the United States and the "Kansas Municipal Audit Guide." Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

A primary government is a legal entity or body politic and includes all funds, organizations, institutions, agencies, departments, and offices that are not legally separate. Such legally separate entities are referred to as component units. The primary government financial statements referred to above do not include the financial data of one of the component units of the City of Sabetha, Kansas as of December 31, 2011.

As described in Note 1, the City of Sabetha, Kansas, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the cash basis and budget laws of the State of Kansas, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, because of the omission of the financial data of one, but not all, of the component units of the City of Sabetha, Kansas, and, because of the City's policy to prepare its financial statements on the basis of accounting discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Sabetha, Kansas, as of December 31, 2011, or the respective changes in financial position for the year then ended.

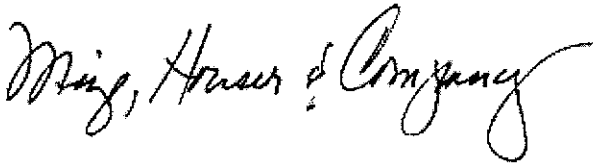
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Also, in our opinion, except for the exclusion of one of the three component unit financial statements from the City's financial statements, the financial statements of the City of Sabetha referred to above present fairly, in all material respects, the fund cash and unencumbered cash balances of the City of Sabetha, Kansas, as of December 31, 2011, and its cash receipts and expenditures by fund, and fund budget to actual comparisons, for the year then ended, taken as a whole, on the prescribed basis of accounting described in Note 1.

In accordance with "Government Auditing Standards", we have also issued our report dated September 25, 2012, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with "Government Auditing Standards" and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements of the City taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," and is not a required part of the financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying account and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in cursive script that reads "Ming, Hauer & Company". The signature is written in dark ink and is positioned above the date.

September 25, 2012

City of Sabetha, Kansas
Summary of Cash Receipts, Expenditures and Unencumbered Cash
For the Year Ended December 31, 2011

Funds	Beginning Unencumbered Cash Balance <u>Restated</u>	Prior Year Cancelled Encumbrances	Cash Receipts	Expenditures	Ending Unencumbered Cash Balance	Add: Outstanding Encumbrances and Accounts Payable	Ending Cash Balance
General	\$ 560,568	\$ -	\$ 1,863,446	\$ 2,022,518	\$ 401,496	\$ -	\$ 401,496
Special Revenue Funds:							
Library	3,527	-	94,792	95,268	3,051	-	3,051
Airport	255,012	-	57,654	155,500	157,166	-	157,166
Parks and Recreation	-	-	5,792	5,792	-	-	-
Highway	-	-	65,517	65,517	-	-	-
Debt Service	620,166	-	4,280,776	4,492,598	408,344	-	408,344
Capital Project Fund:							
Library Improvement	108,414	-	232,551	188,243	152,722	-	152,722
Enterprise Funds:							
Electric	2,849,966	-	5,372,139	4,917,189	3,304,916	-	3,304,916
Water	237,231	-	688,828	769,427	156,632	-	156,632
Sewer	164,244	-	628,102	638,719	153,627	-	153,627
Total Primary Government	4,799,128	-	13,289,597	13,350,771	4,737,954	-	4,737,954
Component Units:							
Mary Cotton Public Library	150,148	-	127,098	129,779	147,467	-	147,467
Sabetha Cemetery	18,156	-	42,295	50,524	9,927	4,500	14,427
Total Reporting Entity	\$ 4,967,432	\$ -	\$ 13,458,990	\$ 13,531,074	\$ 4,895,348	\$ 4,500	\$ 4,899,848

Composition of Cash:

M & J Bank	
Checking	\$ 192,214
Money Market	2,644,574
Community National Bank	
Checking	310,366
Money Market	10,013
United Bank	
Checking	235,357
Money Market	1,415,407
Library Checking	33,686
Library Money Market	28,241
Library Certificate of Deposit	85,540
Cemetery Checking	6,578
Cemetery Money Market	5,249
Cemetery Certificate of Deposit	2,600
Subtotal	4,969,825
Less: Agency Funds per Statement 5	[69,977]
Total Reporting Entity	\$ 4,899,848

STATEMENT 2

City of Sabetha, Kansas
 Summary of Expenditures - Actual and Budget
 For the Year Ended December 31, 2011

<u>Funds</u>	<u>Certified Budget</u>	<u>Adjustment for Qualifying Budget Credits</u>	<u>Total Budget for Comparison</u>	<u>Expenditures Chargeable to Current Year</u>	<u>Variance Positive [Negative]</u>
General	\$ 2,423,150	\$ -	\$ 2,423,150	\$ 2,022,518	\$ 400,632
Special Revenue Funds:					
Library	122,375	-	122,375	95,268	27,107
Airport	167,500	-	167,500	155,500	12,000
Parks and Recreation	4,500	-	4,500	5,792	[1,292]
Highway	67,780	-	67,780	65,517	2,263
Debt Service Fund	408,520	4,241,394	4,649,914	4,492,598	157,316
Capital Project Fund:					
Library Improvement	188,000	-	188,000	188,243	[243]
Enterprise Funds:					
Electric	5,080,000	225,961	5,305,961	4,917,189	388,772
Water	850,000	-	850,000	769,427	80,573
Sewer	702,808	-	702,808	638,719	64,089

The notes to the financial statements are an integral part of this statement.

City of Sabetha, Kansas
General Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011

	<u>Actual</u>	<u>Budget</u>	Variance Positive [Negative]
Cash Receipts			
Taxes	\$ 640,420	\$ 658,397	\$ [17,977]
Intergovernmental	329,707	346,913	[17,206]
Franchise tax	204,848	240,000	[35,152]
Licenses	5,086	4,500	586
Fines and fees	23,205	17,500	5,705
Interest	8,510	13,001	[4,491]
Use of property	19,909	15,500	4,409
Charges for services	245,384	250,000	[4,616]
Reimbursement	261,913	200,000	61,913
Bond proceeds	38,606	-	38,606
Transfers in	71,309	72,280	[971]
Miscellaneous	14,549	40,000	[25,451]
Total Cash Receipts	<u>1,863,446</u>	<u>\$ 1,858,091</u>	<u>\$ 5,355</u>
Expenditures and Transfers Subject to Budget			
General Government			
Personnel	183,863	\$ 180,000	\$ [3,863]
Contractual services	105,226	110,000	4,774
Commodities	21,763	20,000	[1,763]
Law Enforcement			
Personnel	311,713	305,000	[6,713]
Contractual services	57,898	64,000	6,102
Commodities	25,749	12,000	[13,749]
Parks and Recreation			
Personnel	172,885	152,000	[20,885]
Contractual services	74,789	90,000	15,211
Commodities	10,679	15,000	4,321
Streets			
Personnel	190,149	169,000	[21,149]
Contractual services	115,139	100,000	[15,139]
Commodities	106,627	115,000	8,373
EMT			
Personnel	49,806	62,000	12,194
Contractual services	13,383	15,000	1,617
Commodities	11,985	10,000	[1,985]
Industrial development	5,606	7,500	1,894
Capital outlay	376,258	682,650	306,392
Cemetery subsidy	24,000	24,000	-

The notes to the financial statements are an integral part of this statement.

City of Sabetha, Kansas
General Fund (Continued)
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011

	<u>Actual</u>	<u>Budget</u>	Variance Positive [Negative]
Expenditures and Transfers Subject to Budget (Continued)			
Debt service	\$ 165,000	\$ 225,000	\$ 60,000
Miscellaneous	<u>-</u>	<u>65,000</u>	<u>65,000</u>
Total Expenditures and Transfers Subject to Budget	<u>2,022,518</u>	<u>\$ 2,423,150</u>	<u>\$ 400,632</u>
Receipts Over [Under] Expenditures	[159,072]		
Unencumbered Cash, Beginning	<u>560,568</u>		
Unencumbered Cash, Ending	<u>\$ 401,496</u>		

The notes to the financial statements are an integral part of this statement.

City of Sabetha, Kansas
Library Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011

	<u>Actual</u>	<u>Budget</u>	Variance Positive [Negative]
Cash Receipts			
Taxes	\$ 94,792	\$ 125,662	\$ [30,870]
Total Cash Receipts	<u>94,792</u>	<u>\$ 125,662</u>	<u>\$ [30,870]</u>
Expenditures and Transfers Subject to Budget			
Appropriations	<u>95,268</u>	<u>\$ 122,375</u>	<u>\$ 27,107</u>
Total Expenditures and Transfers Subject to Budget	<u>95,268</u>	<u>\$ 122,375</u>	<u>\$ 27,107</u>
Receipts Over [Under] Expenditures	[476]		
Unencumbered Cash, Beginning	<u>3,527</u>		
Unencumbered Cash, Ending	<u>\$ 3,051</u>		

The notes to the financial statements are an integral part of this statement.

STATEMENT 3-3

City of Sabetha, Kansas
 Airport Fund
 Statement of Cash Receipts and Expenditures - Actual and Budget
 For the Year Ended December 31, 2011

	<u>Actual</u>	<u>Budget</u>	Variance Positive [Negative]
Cash Receipts			
Charges for services	\$ 47,654	\$ 35,000	\$ 12,654
Intergovernmental	<u>10,000</u>	<u>-</u>	<u>10,000</u>
Total Cash Receipts	<u>57,654</u>	<u>\$ 35,000</u>	<u>\$ 22,654</u>
Expenditures and Transfers Subject to Budget			
Contractual services	11,017	\$ 50,000	\$ 38,983
Commodities	32,646	17,500	[15,146]
Capital outlay	<u>111,837</u>	<u>100,000</u>	<u>[11,837]</u>
Total Expenditures and Transfers Subject to Budget	<u>155,500</u>	<u>\$ 167,500</u>	<u>\$ 12,000</u>
Receipts Over [Under] Expenditures	[97,846]		
Unencumbered Cash, Beginning	<u>255,012</u>		
Unencumbered Cash, Ending	<u>\$ 157,166</u>		

The notes to the financial statements are an integral part of this statement.

City of Sabetha, Kansas
Parks and Recreation Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011

	<u>Actual</u>	<u>Budget</u>	Variance Positive [Negative]
Cash Receipts			
Taxes	\$ 5,792	\$ 4,500	\$ [1,292]
Total Cash Receipts	<u>5,792</u>	<u>\$ 4,500</u>	<u>\$ [1,292]</u>
Expenditures and Transfers Subject to Budget			
Transfers out	<u>5,792</u>	<u>\$ 4,500</u>	<u>\$ [1,292]</u>
Total Expenditures and Transfers Subject to Budget	<u>5,792</u>	<u>\$ 4,500</u>	<u>\$ [1,292]</u>
Receipts Over [Under] Expenditures	-		
Unencumbered Cash, Beginning	<u>-</u>		
Unencumbered Cash, Ending	<u>\$ -</u>		

The notes to the financial statements are an integral part of this statement.

City of Sabetha, Kansas
 Highway Fund
 Statement of Cash Receipts and Expenditures - Actual and Budget
 For the Year Ended December 31, 2011

	<u>Actual</u>	<u>Budget</u>	Variance Positive [Negative]
Cash Receipts			
Taxes	\$ 65,517	\$ 67,780	\$ [2,263]
Total Cash Receipts	<u>65,517</u>	<u>\$ 67,780</u>	<u>\$ [2,263]</u>
Expenditures and Transfers Subject to Budget			
Transfers out	<u>65,517</u>	<u>\$ 67,780</u>	<u>\$ 2,263</u>
Total Expenditures and Transfers Subject to Budget	<u>65,517</u>	<u>\$ 67,780</u>	<u>\$ 2,263</u>
Receipts Over [Under] Expenditures	-		
Unencumbered Cash, Beginning	<u>-</u>		
Unencumbered Cash, Ending	<u>\$ -</u>		

The notes to the financial statements are an integral part of this statement.

City of Sabetha, Kansas
Debt Service Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011

	<u>Actual</u>	<u>Budget</u>	Variance Positive [Negative]
Cash Receipts			
Taxes	\$ 30,257	\$ 29,701	\$ 556
Bond proceeds	4,241,394	-	4,241,394
Special assessment	4,159	4,000	159
Use of money and property	<u>4,966</u>	<u>-</u>	<u>4,966</u>
Total Cash Receipts	<u>4,280,776</u>	<u>\$ 33,701</u>	<u>\$ 4,247,075</u>
Expenditures and Transfers Subject to Budget			
Principal	4,333,000	\$ 368,520	\$ [3,964,480]
Interest	22,544	40,000	17,456
Cost of issuance	137,054	-	[137,054]
Adjustments for qualifying budget credits	<u>-</u>	<u>4,241,394</u>	<u>4,241,394</u>
Total Expenditures and Transfers Subject to Budget	<u>4,492,598</u>	<u>\$ 4,649,914</u>	<u>\$ 157,316</u>
Receipts Over [Under] Expenditures	[211,822]		
Unencumbered Cash, Beginning	<u>620,166</u>		
Unencumbered Cash, Ending	<u>\$ 408,344</u>		

The notes to the financial statements are an integral part of this statement.

STATEMENT 3-7

City of Sabetha, Kansas
 Library Improvement Fund
 Statement of Cash Receipts and Expenditures - Actual and Budget
 For the Year Ended December 31, 2011

	<u>Actual</u>	<u>Budget</u>	Variance Positive [Negative]
Cash Receipts			
Intergovernmental	\$ 232,551	\$ 250,000	\$ [17,449]
Total Cash Receipts	<u>232,551</u>	<u>\$ 250,000</u>	<u>\$ [17,449]</u>
Expenditures and Transfers Subject to Budget			
Debt service	<u>188,243</u>	<u>\$ 188,000</u>	<u>\$ [243]</u>
Total Expenditures and Transfers Subject to Budget	<u>188,243</u>	<u>\$ 188,000</u>	<u>\$ [243]</u>
Receipts Over [Under] Expenditures	44,308		
Unencumbered Cash, Beginning	<u>108,414</u>		
Unencumbered Cash, Ending	<u>\$ 152,722</u>		

The notes to the financial statements are an integral part of this statement.

City of Sabetha, Kansas
Electric Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011

	<u>Actual</u>	<u>Budget</u>	Variance Positive [Negative]
Cash Receipts			
Charges to customers	\$ 5,071,806	\$ 4,750,000	\$ 321,806
Intergovernmental reimbursements	225,961	750,000	[524,039]
Reimbursements	46,004	25,000	21,004
Use of money and property	<u>28,368</u>	<u>35,000</u>	<u>[6,632]</u>
Total Cash Receipts	<u>5,372,139</u>	<u>\$ 5,560,000</u>	<u>\$ [187,861]</u>
Expenditures and Transfers Subject to Budget			
Administration	204,088	\$ 250,000	\$ 45,912
Production	536,169	700,000	163,831
Distribution	3,212,206	3,050,000	[162,206]
Capital outlay	662,951	750,000	87,049
Debt service	301,775	330,000	28,225
Adjustments for qualifying budget credits			
Reimbursements	<u>-</u>	<u>225,961</u>	<u>225,961</u>
Total Expenditures and Transfers Subject to Budget	<u>4,917,189</u>	<u>\$ 5,305,961</u>	<u>\$ 388,772</u>
Receipts Over [Under] Expenditures	454,950		
Unencumbered Cash, Beginning	<u>2,849,966</u>		
Unencumbered Cash, Ending	<u>\$ 3,304,916</u>		

The notes to the financial statements are an integral part of this statement.

STATEMENT 3-9

City of Sabetha, Kansas
Water Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011

	<u>Actual</u>	<u>Budget</u>	Variance Positive [Negative]
Cash Receipts			
Charges to customers	\$ 670,362	\$ 645,000	\$ 25,362
Miscellaneous	7,120	7,000	120
Sales tax	-	15,000	[15,000]
Use of money and property	<u>11,346</u>	<u>15,000</u>	<u>[3,654]</u>
Total Cash Receipts	<u>688,828</u>	<u>\$ 682,000</u>	<u>\$ 6,828</u>
Expenditures and Transfers Subject to Budget			
Administration	114,980	\$ 165,000	\$ 50,020
Production	144,618	160,000	15,382
Distribution	152,815	175,000	22,185
Capital outlay	45,049	75,000	29,951
Debt service	<u>311,965</u>	<u>275,000</u>	<u>[36,965]</u>
Total Expenditures and Transfers Subject to Budget	<u>769,427</u>	<u>\$ 850,000</u>	<u>\$ 80,573</u>
Receipts Over [Under] Expenditures	[80,599]		
Unencumbered Cash, Beginning	<u>237,231</u>		
Unencumbered Cash, Ending	<u>\$ 156,632</u>		

The notes to the financial statements are an integral part of this statement.

City of Sabetha, Kansas
Sewer Fund
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2011

	<u>Actual</u>	<u>Budget</u>	Variance Positive [Negative]
Cash Receipts			
Charges to customers	\$ 384,757	\$ 400,000	\$ [15,243]
Reimbursements	2,283	5,000	[2,717]
Sales tax	232,551	230,000	2,551
Use of money and property	<u>8,511</u>	<u>15,000</u>	<u>[6,489]</u>
Total Cash Receipts	<u>628,102</u>	<u>\$ 650,000</u>	<u>\$ [21,898]</u>
Expenditures and Transfers Subject to Budget			
Administration	110,984	\$ 107,500	\$ [3,484]
Treatment	176,624	190,000	13,376
Capital outlay	30,289	35,000	4,711
Collection	108,341	157,500	49,159
Debt service	<u>212,481</u>	<u>212,808</u>	<u>327</u>
Total Expenditures and Transfers Subject to Budget	<u>638,719</u>	<u>\$ 702,808</u>	<u>\$ 64,089</u>
Receipts Over [Under] Expenditures	[10,617]		
Unencumbered Cash, Beginning	<u>164,244</u>		
Unencumbered Cash, Ending	<u>\$ 153,627</u>		

The notes to the financial statements are an integral part of this statement.

STATEMENT 4-1

City of Sabetha, Kansas
 Mary Cotton Public Library
 General Fund
 Statement of Cash Receipts and Expenditures - Actual
 For the Year Ended December 31, 2011

Cash Receipts	
State of Kansas	\$ 1,204
NEKL Association	16,525
City appropriation	95,268
Interest	2,160
Donations and sales	4,118
Matching funds	4,425
Miscellaneous	3,000
Reimbursements	<u>398</u>
Total Cash Receipts	<u>127,098</u>
Expenditures	
Salary and payroll taxes	71,304
Books, periodicals and film	21,976
Supplies	8,158
Utilities	10,963
Maintenance	9,753
Miscellaneous	<u>7,625</u>
Total Expenditures	<u>129,779</u>
Receipts Over [Under] Expenditures	[2,681]
Unencumbered Cash, Beginning	<u>150,148</u>
Unencumbered Cash, Ending	<u>\$ 147,467</u>

The notes to the financial statements are an integral part of this statement.

City of Sabetha, Kansas
 Sabetha Cemetery
 General Fund
 Statement of Cash Receipts and Expenditures - Actual
 For the Year Ended December 31, 2011

Cash Receipts	
City appropriation	\$ 24,000
Interest	105
Charges for services	<u>18,190</u>
Total Cash Receipts	<u>42,295</u>
Expenditures	
Salaries	18,020
Payroll taxes	2,781
Contractual service	18,597
Supplies	2,278
Capital outlay	<u>8,848</u>
Total Expenditures	<u>50,524</u>
Receipts Over [Under] Expenditures	[8,229]
Unencumbered Cash, Beginning	<u>18,156</u>
Unencumbered Cash, Ending	<u>\$ 9,927</u>

The notes to the financial statements are an integral part of this statement.

STATEMENT 5

City of Sabetha, Kansas
 Agency Funds
 Statement of Cash Receipts and Cash Disbursements
 For the Year Ended December 31, 2011

<u>Fund</u>	<u>Beginning Cash Balance</u>	<u>Cash Receipts</u>	<u>Cash Disbursements</u>	<u>Ending Cash Balance</u>
Tax Fund	\$ 26,839	\$ -	\$ 1,865	\$ 24,974
Municipal Court Fund	2,732	-	1,052	1,680
EMS Fund	13,807	-	1,615	12,192
Fitness Partners Fund	-	6,674	-	6,674
Playground Equipment Fund	23,485	69	-	23,554
Police Department Savings Fund	<u>900</u>	<u>3</u>	<u>-</u>	<u>903</u>
Total Agency Funds	<u>\$ 67,763</u>	<u>\$ 6,746</u>	<u>\$ 4,532</u>	<u>\$ 69,977</u>

The notes to the financial statements are an integral part of this statement.

City of Sabetha, Kansas
Notes to the Financial Statements
For the Year Ended December 31, 2011

NOTE 1 - Summary of Significant Accounting Policies

Financial Reporting Entity

The City of Sabetha (the City) is a municipal corporation governed by a five-member commission. These financial statements present only the primary government of the City and the Mary Cotton Public Library and Sabetha Cemetery component units. They exclude one of the component units for which the City is considered financially accountable:

The Sabetha Housing Authority

Separate financial statements may be obtained directly from the above.

Basis of Accounting

These financial statements are presented on a basis of accounting, which demonstrates compliance with the cash basis and budget laws of Kansas. Cash receipts are recognized when the cash balance of a fund is increased. For an interfund transaction, a cash receipt is recorded in the fund receiving cash from another fund. Cash disbursements are recognized when the cash balance of a fund is decreased. For an interfund transaction, a cash disbursement is recorded in the fund from which the cash is transferred. Expenditures include disbursements, accounts payable, and encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods and services, and are usually evidenced by a purchase order or written contract.

Departure from Accounting Principles Generally Accepted in the United States of America

The basis of accounting described above results in a financial statement presentation, which shows cash receipts, cash disbursements, cash and unencumbered cash balances, and expenditures compared to budget. Balance sheets that would have shown noncash assets such as receivables, inventories, and prepaid expense, liabilities such as deferred revenue and matured principal and interest payable, and reservations of the fund balance are not presented.

Under accounting principles generally accepted in the United States of America, encumbrances are only recognized as a reservation of fund balance. Encumbrances outstanding at year-end do not constitute expenditures or liabilities. Consequently, the expenditures as reported do not present the cost of goods and services received during the fiscal year in accordance with accounting principles generally accepted in the United States of America. Capital assets that account for the land, buildings, and equipment owned by the City are not presented in the financial statements. Also, long-term debt such as general obligation bonds, temporary notes, and compensated absences are not presented in the financial statements.

The City has a waiver from accounting principles generally accepted in the United States of America, which allows the municipality to use the statutory basis of accounting.

Fund Descriptions

In governmental accounting, a fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts, recording cash balances and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

City of Sabetha, Kansas
Notes to the Financial Statements
For the Year Ended December 31, 2011

NOTE 1 - Summary of Significant Accounting Policies (Continued)

Governmental Fund Types

The City's governmental funds are:

General Fund - to account for all unrestricted cash except that required to be accounted for in another fund. This is the principal operating fund of the City.

Special Revenue Funds - are used to account for revenues derived from specific taxes, governmental grants or other revenue sources which are restricted to finance particular functions or activities of the City.

Debt Service Fund - to account for the accumulation of cash for, and the payment of, principal, interest and other related costs of the City's general obligation bonds.

Capital Project Fund - to account for the acquisition of capital assets or construction of major capital projects not being financed by proprietary funds.

Proprietary Fund Types

The proprietary funds are used to account for the City's ongoing organizations and activities which are similar to those often found in the private sector. The City's proprietary fund types are:

Enterprise Funds - to account for operations that are financed and operated in a manner similar to private business enterprise - where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Fiduciary Fund Types

Fiduciary funds account for assets held by the City in a trustee capacity or as an agent on behalf of others.

Agency Funds are custodial in nature. These funds are used to account for assets that the City holds for others in an agency capacity.

Budgetary Information

Kansas statutes require that an annual operating budget be legally adopted for the general fund, special revenue funds (unless specifically exempted by statute), debt service funds, and enterprise funds. The statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

1. Preparation of the budget for the succeeding calendar year on or before August 1st.
2. Publication in local newspaper of the proposed budget and notice of public hearing on the budget on or before August 5th.
3. Public hearing on or before August 15th, but at least ten days after publication of notice of hearing.
4. Adoption of the final budget on or before August 25th.

The statutes allow for the city council to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication, the hearing may be held and the governing body may amend the budget at that time. The 2011 budget was amended for the Airport Fund.

City of Sabetha, Kansas
Notes to the Financial Statements
For the Year Ended December 31, 2011

NOTE 1 - Summary of Significant Accounting Policies (Continued)

Budgetary Information (Continued)

The statutes permit transferring budgeted amounts between accounts within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison statements are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

All legal annual operating budgets are prepared using the Kansas prescribed basis of accounting, in which, revenues are recognized when cash is received and expenditures include disbursements, accounts payable, and encumbrances. Encumbrances are commitments by the City for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. All unencumbered appropriations (legal budget expenditure authority) lapse at year-end.

A legal operating budget is not required for capital projects funds, agency funds, and certain special revenue funds.

Spending in funds which are not subject to the legal annual operating budget requirement is controlled by federal regulations, other statutes, or by the use of internal spending limits established by the city commission.

NOTE 2 - Leases

The City has entered into the following lease agreements as lessee for financing the acquisition of equipment:

Item <u>Purchased</u>	<u>Issued</u>	<u>Final Maturity</u>	<u>Interest Rate</u>	<u>Original Amount</u>	<u>Balance December 31, 2011</u>
Copier Lease	2011	2013	N/A	\$ 15,000	\$ 3,240
Sewer camera	2011	2013	3.80%	48,660	32,144
Fire Department Airpacks	2007	2012	5.50%	57,207	12,716
Case Backhoe	2010	2014	3.83%	59,944	59,944
S.A.C Vacuum Tank	2009	2012	3.36%	21,136	<u>7,283</u>
					<u>\$ 115,327</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2011, were as follows:

<u>Year Ending December 31,</u>	
2012	\$ 61,658
2013	39,621
2014	<u>21,532</u>
Total minimum lease payments	122,812
Less: amount representing interest	<u>[7,484]</u>
Present value of minimum lease payments	<u>\$ 115,327</u>

City of Sabetha, Kansas
Notes to the Financial Statements
For the Year Ended December 31, 2011

NOTE 3 - Long-Term Debt

During the year ended December 31, 2011, the following changes occurred in long term liabilities:

	Balance January 1, 2011	Additions	Reductions	Balance December 31, 2011	Amounts Due Within One Year
General obligation bonds	\$ 1,145,000	\$ -	\$ 155,000	\$ 990,000	\$ 155,000
Special obligation	44,000	-	10,000	34,000	11,000
	<u>\$ 1,189,000</u>	<u>\$ -</u>	<u>\$ 165,000</u>	<u>\$ 1,024,000</u>	<u>\$ 166,000</u>
KDHE revolving loan	\$ 2,589,838	\$ -	\$ 141,203	\$ 2,448,635	\$ 145,616
Hospital construction					
general obligation bonds	4,318,000	4,280,000	4,318,000	4,280,000	185,000
General obligation bonds	<u>1,655,000</u>	<u>-</u>	<u>555,000</u>	<u>1,100,000</u>	<u>560,000</u>
	<u>\$ 8,562,838</u>	<u>\$ 4,280,000</u>	<u>\$ 5,014,203</u>	<u>\$ 7,828,635</u>	<u>\$ 890,616</u>

General Obligation Bonds. The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both general government and proprietary fund activities. These bonds are reported in the proprietary funds if they are expected to be repaid from proprietary fund revenues. In addition, general obligation bonds have been issued to refund both general obligation and revenue bonds.

General obligation bonds are direct obligations and pledge the full faith and credit of the City. These bonds generally are issued with equal amounts of principal maturing each year. General obligation bonds outstanding at December 31, 2011 are as follows:

<u>Purpose</u>	<u>Issued</u>	<u>Final Maturity</u>	<u>Interest Rates</u>	<u>Original Amount</u>	<u>Current Amount</u>
General government	1997	2013	4.23 - 6.25%	\$ 385,000	\$ 10,000
Library	2008-A	2017	3.00 - 3.70%	1,490,000	980,000
Hospital construction	2011-A	2033	2.00 - 4.00%	4,280,000	4,280,000
Water	2002	2013	2.00 - 4.05%	1,300,000	530,000
Electric	2008-A	2017	3.00 - 3.70%	<u>1,600,000</u>	<u>570,000</u>
				<u>\$ 9,055,000</u>	<u>\$ 6,370,000</u>

City of Sabetha, Kansas
Notes to the Financial Statements
For the Year Ended December 31, 2011

NOTE 3 - Long-Term Debt (Continued)

Annual debt service requirements to maturity for the general obligation bonds are as follows:

<u>Year Ending December 31,</u>	<u>Governmental Funds</u>		<u>Enterprise Funds</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 155,000	\$ 34,257	\$ 745,000	\$ 130,659	\$ 900,000	\$ 164,916
2013	160,000	29,126	690,000	143,550	850,000	172,676
2014	160,000	23,830	155,000	121,000	315,000	144,830
2015	165,000	18,550	155,000	117,900	320,000	136,450
2016	175,000	12,775	160,000	114,800	335,000	127,575
2017-2021	175,000	6,475	855,000	519,550	1,030,000	526,025
2022-2026	-	-	970,000	403,265	970,000	403,265
2027-2031	-	-	1,130,000	233,020	1,130,000	233,020
2032-2033	-	-	520,000	31,400	520,000	31,400
	<u>\$ 990,000</u>	<u>\$ 125,013</u>	<u>\$ 5,380,000</u>	<u>\$ 1,815,144</u>	<u>\$ 6,370,000</u>	<u>\$ 1,940,157</u>

Special Assessments. As provided by Kansas statutes, projects financed in part by special assessments are financed through general obligation bonds of the City and are retired from the Debt Service Fund. Special assessments paid prior to the issuance of bonds are recorded as revenue in the appropriate project. Special assessments received after the issuance of bonds are recorded as revenue in the Debt Service Fund.

Special Obligation Bonds. The City issues special obligation bonds to provide funds for the acquisition and construction of major capital facilities.

Special obligation bonds are direct obligations and pledge the full faith and credit of the City. These bonds generally are issued with equal amounts of principal maturing each year. Special obligation bonds outstanding at December 31, 2011 are as follows:

<u>Purpose</u>	<u>Issued</u>	<u>Final Maturity</u>	<u>Interest Rate</u>	<u>Original Amount</u>	<u>Current Amount</u>
General government	2001	2014	7.40%	<u>\$ 105,000</u>	<u>\$ 34,000</u>

Annual debt service requirements to maturity for the special obligation bonds are as follows:

<u>Year Ending December 31,</u>	
2012	\$ 13,516
2013	12,702
2014	<u>12,888</u>
Total principal and interest	39,106
Less: interest	<u>[5,106]</u>
Total principal	<u>\$ 34,000</u>

City of Sabetha, Kansas
Notes to the Financial Statements
For the Year Ended December 31, 2011

NOTE 3 - Long-Term Debt (Continued)

State Agency Loans the Kansas Water Pollution Control Revolving Loan Fund for improving the wastewater system in Sabetha. In 2004, the City arranged for a \$3,250,000 loan through KDHE. The City is obligated to make semi-annual payments of \$106,567 from March 1, 2006 to September 1, 2025. These payments will include a gross interest rate of 2.54% plus a .25% service fee. At December 31, 2011, the outstanding principal balance was \$2,448,635. The following displays annual debt service requirements to maturity for the loan payable to be paid from service revenues, for the full proceeds amount:

<u>Year Ending December 31,</u>	
2012	\$ 213,134
2013	213,134
2014	213,134
2015	213,134
2016	213,134
2017-2021	1,065,671
2022-2025	<u>852,537</u>
Total principal, interest, and service fees	2,983,878
Less: interest and service fees	<u>[535,243]</u>
Total principal	<u>\$2,448,635</u>

In the current year, the City issued Series 2011-A general obligation bonds totaling \$4,280,000 for the purpose of advance refunding of the principal and interest due on the City's outstanding 2003-A general obligation bonds. The 2011 refunding issue resulted in a combined economic savings of \$416,146.

NOTE 4 - Deposits

The City's cash is considered to be active funds by management and is deposited according to KSA 9-1401. The statute requires that banks eligible to hold active funds have a main or branch bank in the county in which the City is located or an adjacent county and the banks provide an acceptable rate for active funds.

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's deposit policy for custodial credit risk require that the depository banks will maintain 100% security in the form of FDIC coverage and pledged collateral according to KSA 9-1402.

NOTE 5 - Interfund Transfers

A reconciliation of transfers by fund type for 2011 follows:

	<u>To</u>	<u>From</u>
General Fund	\$ 71,309	\$ -
Parks and Recreation Fund	-	5,792
Highway Fund	-	65,517
	<u>\$ 71,309</u>	<u>\$ 71,309</u>

City of Sabetha, Kansas
Notes to the Financial Statements
For the Year Ended December 31, 2011

NOTE 6 - Retirement Plan

Plan description - The City participates in the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, *et seq.* KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to KPERS (611 South Kansas Avenue, Topeka, Kansas 66603-3925).

Funding Policy - K.S.A. 74-4919 establishes the KPERS member-employee contribution rate of up to 6% of covered salary. The employer collects and remits member-employee contributions according to the provisions of section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rate be determined annually based on the results of an annual actuarial valuation. KPERS is funded on an actuarial reserve basis. State law sets a limitation on annual increases in the contribution rates for KPERS employers. The employer rate was 7.74% from January 1 to December 31, 2011. The City employer contributions to KPERS for the years ending December 31, 2011, 2010, and 2009 were \$99,905, \$89,537, and \$76,277, respectively, equal to the required contributions for each year.

NOTE 7 - Compensated Absences

It is the City's policy to pay employees' accrued vacation pay upon termination of employment. As of December 31, 2011, the liability for accrued vacation pay was \$30,200.

NOTE 8 - Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City carries commercial insurance for risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. The City's insurance coverage does not cover the risk of loss to the electrical distribution system due to wind or ice storms.

NOTE 9 - Statutory Violations

Actual exceeded budgeted expenditures in the Library Improvement Fund and the Parks and Recreation Fund, which is a violation of KSA 79-2935.

Note 10 – Capital Projects

During 2008, the City began construction on an Electric System Improvement Project. The estimated project cost was \$2.8 million, of which 75% is reimbursable by the Federal Emergency Management Agency (FEMA) and 10% is reimbursable by the State of Kansas. Total costs incurred as of December 31, 2011 were \$2,552,536. Total FEMA and Kansas reimbursements received as of December 31, 2011 were \$1,471,842 and \$232,301, respectively. The project is expected to be completed in 2012.

Note 11 – Subsequent Events

The City has entered into a lease agreement on August 3, 2012, to purchase equipment at a price of \$161,580 with an interest rate of 3.24%. The City will make five annual payments of \$35,525.

City of Sabetha, Kansas
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2011

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Receipts	Expenditures
<u>Department of Homeland Security</u>			
Passed through Kansas Division of Emergency Management:			
Disaster Grants - Public Assistance	97.036	\$ 141,183	\$ 440,547
Total Department of Homeland Security		<u>141,183</u>	<u>440,547</u>
<u>Department of Energy</u>			
Passed through Kansas Corporation Commission			
Energy Efficient and Conservation Block Grant Program	81.128	<u>33,902</u>	<u>76,398</u>
Total Department of Energy		<u>33,902</u>	<u>76,398</u>
<u>United States Department of Agriculture</u>			
Passed through the State of Kansas			
Cooperative Forestry Assistance	10.664	<u>1,225</u>	<u>1,225</u>
Total Department of Energy		<u>1,225</u>	<u>1,225</u>
<u>Department of Transportation</u>			
Passed through the Kansas Department of Transportation			
Highway Planning and Construction	20.205	<u>4,131</u>	<u>4,131</u>
Total Department of Energy		<u>4,131</u>	<u>4,131</u>
<u>United States Department of Justice</u>			
Passed through the State of Kansas			
Edward Byrne Memorial Justice Assistance Grant	16.738	<u>15,032</u>	<u>15,032</u>
Total Department of Health and Environment		<u>15,032</u>	<u>15,032</u>
Total		<u>\$ 195,473</u>	<u>\$ 537,333</u>

The accompanying notes are an integral part of this schedule.

City of Sabetha, Kansas
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2011

1. General

The accompanying Schedule of Expenditures of Federal Awards presents the expenditures of all federal financial assistance programs of the City of Sabetha, Kansas. All expenditures of federal financial assistance received directly from federal agencies, if any, as well as federal financial assistance passed through other government agencies is included on the schedule.

2. Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards is presented on the Kansas statutory basis of accounting which includes cash disbursements, accounts payable and encumbrances.

City of Sabetha, Kansas
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2011

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:

Adverse - GAAP
Qualified - Prescribed Basis

Internal control over financial reporting:

Material weakness(es) identified?

_____ Yes X No

Significant deficiency (ies) identified that are not
considered to be material weaknesses?

 X Yes _____ None reported

Noncompliance material to financial statements noted?

_____ Yes X No

Federal Awards

Internal control over major programs:

Material weakness(es) identified?

_____ Yes X No

Significant deficiency (ies) identified that are not
considered to be material weaknesses?

_____ Yes X None reported

Type of auditor's report issued on compliance for major programs:

Unqualified

Any audit findings disclosed that are required to be
reported in accordance with section 510(a)
of Circular A-133?

_____ Yes X No

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

97.036

Disaster Grants - Public Assistance

Dollar threshold used to distinguish between
type A and type B programs:

\$300,000

Auditee qualified as low-risk auditee?

_____ Yes X No

City of Sabetha, Kansas
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended December 31, 2011

Section II - Financial Statement Findings

Current Year Findings

<u>Program</u>	<u>Finding</u>	<u>Conditions</u>	<u>Criteria</u>	<u>Questioned</u> <u>Costs</u>	<u>Recommendation</u>	<u>Management</u> <u>Response</u>
Not applicable	2011-1	There is a lack of separation of duties within the bank reconciliation process	Recommended Practices	Not determined	We recommend that all bank reconciliations be prepared by someone not involved in the handling, processing, or posting of cash transactions. Furthermore, we recommend that all bank reconciliations be reviewed and approved by a member of management.	Agrees
Not applicable	2011-2	There is a lack of separation of duties within the physical and accounting control over emergency medical services receipts.	Recommended Practices	Not determined	<p>We recommend the following changes to the processes for billing, receipting and recording EMS receipts.</p> <p>a. EMS run sheets should be prenumbered and the run numbers should be added to the EMS billing/receipt spreadsheet maintained by the City.</p> <p>b. Amounts received should be deposited daily with the other cash receipts received by the City.</p> <p>c. The deposit date should be noted for each amount receipted on the EMS billing/receipt spreadsheet to track deposits to the bank.</p> <p>d. Monthly reconciliations should be performed for receipts from EMS provided. The reconciliations should be performed by an individual independent of the receipt collection process and should verify that receipts logged into the EMS billing/receipt spreadsheet agree to bank statement deposits and general ledger postings.</p>	Agrees
Not applicable	2011-3	There is a lack of separation of duties within the physical and accounting control over utility billing receipts.	Recommended Practices	Not determined	We recommend that an individual independent of the utility billing process review and approve the monthly adjustments report.	Agrees

City of Sabetha, Kansas
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended December 31, 2011

Section II - Financial Statement Findings (Continued)

Prior Year Findings

<u>Program</u>	<u>Finding</u>	<u>Conditions</u>	<u>Criteria</u>	<u>Questioned Costs</u>	<u>Recommendation</u>	<u>Management Response</u>	<u>Current Status</u>
Not applicable	2010-1	There is a lack of separation of duties within the bank reconciliation process	Recommended Practices	Not determined	We recommend that all bank reconciliations be prepared by someone not involved in the handling, processing, or posting of cash transactions. Furthermore, we recommend that all bank reconciliations be reviewed and approved by a member of management.	Agrees	Repeated as Finding 2011-1
Not applicable	2010-2	There is a lack of separation of duties within the physical and accounting control over emergency medical services receipts.	Recommended Practices	Not determined	<p>We recommend the following changes to the processes for billing, receipting and recording EMS receipts.</p> <p>a. EMS run sheets should be prenumbered and the run numbers should be added to the EMS billing/receipt spreadsheet maintained by the City.</p> <p>b. Amounts received should be deposited daily with the other cash receipts received by the City.</p> <p>c. The deposit date should be noted for each amount receipted on the EMS billing/receipt spreadsheet to track deposits to the bank.</p> <p>d. Monthly reconciliations should be performed for receipts from EMS provided. The reconciliations should be performed by an individual independent of the receipt collection process and should verify that receipts logged into the EMS billing/receipt spreadsheet agree to bank statement deposits and general ledger postings.</p>	Agrees	Repeated as Finding 2011-2

Section III - Federal Award Findings and Questioned Costs

None Noted



MIZE HOUSER
COMPANY^{PA.}

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Mayor and City Commission
City of Sabetha, Kansas

We have audited the financial statements of the City of Sabetha, Kansas (the City), as of and for the year ended December 31, 2011, and have issued our report thereon dated September 25, 2012, which is a special report on the financial statements prepared in accordance with a basis of accounting prescribed by the State of Kansas. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in "Government Auditing Standards," issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A deficiency in internal controls exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, as described in the accompanying schedule of findings and questioned costs, as Findings 2011-1, 2011-2, and 2011-3, that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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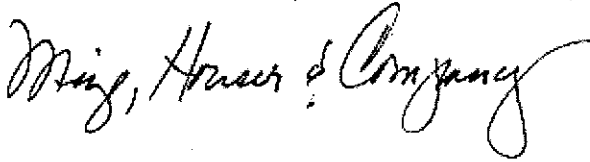
534 S Kansas Ave, Suite 700 ■ Topeka, KS 66603-3465 ■ 785.233.0536 p ■ 785.233.1078 f
534 S Kansas Ave, Suite 400 ■ Topeka, KS 66603-3454 ■ 785.234.5573 p ■ 785.234.1037 f
7101 College Blvd, Suite 900 ■ Overland Park, KS 66210-1984 ■ 913.451.1882 p ■ 913.451.2211 f
211 E Eighth St, Suite A ■ Lawrence, KS 66044-2771 ■ 785.842.8844 p ■ 785.842.9049 f

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under "Government Auditing Standards." However, we noted certain other matters that we reported to management of the City of Sabetha, Kansas, in a separate letter dated September 25, 2012.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses and, accordingly, we express no opinion on the responses.

This communication is intended solely for the information and use of the mayor, city commission and other members of management of the City of Sabetha, Kansas, federal awarding agencies and pass through entities and is not intended to be and should not be used by anyone other than those specified parties.

A handwritten signature in cursive script, reading "Ming, Horner & Company". The signature is written in dark ink and is positioned above the date.

September 25, 2012



MIZE HOUSER
COMPANY_{PA}

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Mayor and City Commission
City of Sabetha, Kansas

Compliance

We have audited the compliance of the City of Sabetha, Kansas (the City) with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2011. Major federal financial programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in "Government Auditing Standards," issued by the Comptroller General of the United States; and OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

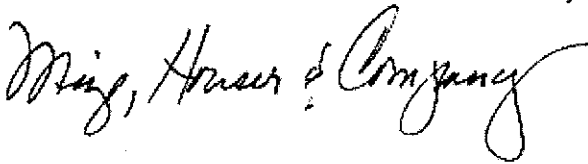
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A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This communication is intended solely for the information and use of the mayor, city commission and other members of management of the City of Sabetha, Kansas, federal awarding agencies and pass through entities and is not intended to be and should not be used by anyone other than those specified parties.

A handwritten signature in cursive script that reads "Ming, Houser & Company". The signature is written in dark ink and is positioned above the date.

September 25, 2012